

VZCZCXRO2903
PP RUEHBC RUEHDE RUEHIHL RUEHKUK RUEHMOS
DE RUEHGB #0750/01 0680331
ZNY SSSSS ZZH
P 090331Z MAR 06
FM AMEMBASSY BAGHDAD
TO RUEHC/SECSTATE WASHDC PRIORITY 3165
INFO RUCNRAQ/IRAQ COLLECTIVE PRIORITY
RUEKJCS/SECDEF WASHINGTON DC PRIORITY
RHEHNSC/WHITE HOUSE NSC WASHINGTON DC PRIORITY

S E C R E T SECTION 01 OF 04 BAGHDAD 000750

SIPDIS

SIPDIS

E.O. 12958: DECL: 03/08/2031
TAGS: [PREL](#) [PGOV](#) [KCOR](#) [ECON](#) [EPET](#) [KCRM](#) [IZ](#)
SUBJECT: CORRUPTION IN THE IRAQI OIL MINISTRY FAVORS FADHILA
PARTY SHAYKH; FORCES SOMO DIRECTOR OUT -- FOR NOW

Classified By: EconMinCouns Tom Delare, reasons 1.4(b) and (d)

[11](#). (S/REL UK) Iraqi State Oil Marketing Organization (SOMO) Director General Mussab al-Dujayli (strictly protect) told US and UK Emboffs that the Fadhila Party was blatantly trying to use its control over the Ministry of Oil to raise as much money from corruption as possible. Dujayli obtained support from Prime Minister Ibrahim Jafari and Deputy Prime Minister Ahmad Chalabi to push back against Fadhila directing him to award oil contracts to parties that had paid bribes to Fadhila. The Fadhila Minister of Oil Hashim al-Hashimi then fired Dujayli as head of SOMO on March 6. Dujayli sought USG and HMG assistance to persuade Chalabi to rescind his dismissal, but said Chalabi himself was a weak person to rely on because of his own involvement in corruption on oil contracts. The money Fadhila was pocketing was going to Shaykh Muhammad al-Yaqubi in Najaf, Dujayli said. He asserted, however, that Fadhila Party leader Nadim al-Jabiri was not involved in the scheme. Dujayli considers himself to be a suitable candidate for the next Minister of Oil and claimed the Sadrists would back him. End summary.

Corruption in the Oil Ministry Bad Under
Bahr al-Ulum, but Worse Under Fadhila

[12](#). (S/REL UK) Dr. Mussab H. al-Dujayli (strictly protect), until March 6 the Director-General of the Iraqi State Oil Marketing Organization (SOMO), told EconMinCouns, Poloff and UK Emboffs on March 6 that the Fadhila Party had effectively taken over the Iraqi Ministry of Oil and SOMO and was using it blatantly to raise funds for the party. Corruption was now endemic, Dujayli said, and if Fadhila stayed in control of the ministry, would become pervasive.

[13](#). (S/REL UK) Dujayli described how the United Iraqi Coalition (UIC) decided that the Fadhila Party would get the Ministry of Oil as part of the cabinet deal reached in May 2005. However, Fadhila's first nominee was rejected as unqualified, and eventually Fadhila struck a deal with Ibrahim Bahr al-Ulum, who had been the first post-liberation Minister of Oil during the Iraqi Governing Council. In December, Fadhila replaced Bahr al-Ulum, according to Dujayli not over fuel price increases, as was widely believed, but because Bahr al-Ulum was not cutting Fadhila in on enough of the action.

[13](#). (S/REL UK) Fadhila was now "more corrupt, more vigorous" than Bahr al-Ulum was. The principal individuals involved in corruption in the Ministry are Kareem al-Yaqubi and Kadhem al-Yaqubi, both of whom Dujayli described as "cousins" to Shaykh Muhammad al-Yaqubi, spiritual leader of the Fadhila Party, who is based in Najaf. (Note: We

believe Kadhem, at least, is Shaykh Yaqubi's nephew, not his cousin. End note.) Ali Jumna, another Fadhila Party member, is also involved. All, but especially Kadhem al-Yaqubi, are powers in the Ministry, eclipsing nominal Minister of Oil Hashim al-Hashimi, the former Minister of Tourism. Kadhem is now Deputy Manager for Oil Products but has no qualifications for the job, Dujayli said. The Deputy Ministers are "petrified," and refuse to get involved. Others in the ministry are starting to go along with the corruption to keep their jobs, though if Fadhila stays in control of the Ministry of Oil, many of the best qualified people will leave, he said.

¶4. (S/REL UK) Dujayli explained that much corruption occurs when SOMO sells residual crude (fuel oil) -- which is what is left over after gasoline, kerosene and diesel fuel are refined from crude oil. Residual fuel oil has value in neighboring countries, particularly since the inefficiency of Iraqi refineries means that many of the lighter products are not removed from the crude oil. Nevertheless, there is only a limited use for fuel oil in some power plants and in brick factories in Iraq. Residual fuel oil is sold by contract in 10,000-metric ton lots for a price equal to the world market price less USD 18 a metric ton. Winning bidders use trucks to carry the fuel from Iraqi refineries in the north to Turkey and Syria and from refineries in the south to primarily to Iran. The revenues for residual fuel oil sales do not go into the DFI account, but go directly to the Ministry of Oil. Fadhila party officials named above were directing Dujayli to give contracts to specific companies. The only explanation for this, he said, was that the companies in question were making payments to the Fadhila Party or to the officials involved.

BAGHDAD 00000750 002 OF 004

¶5. (S/REL UK) To remove any doubt, the Fadhila Party members in the Ministry were blatantly telling Dujayli and others that they needed the Ministry to raise money for the party, that their party was struggling financially, and that the Fadhila party "got the ministry of oil as a source of finance. We have to find ways and means to finance our party." The Yaqubis were threatening everyone in SOMO that they had to accept these conditions or they would lose their jobs. "Fadhila told us the oil was theirs and they could sell it as they pleased," Dujayli said.

¶6. (S/REL UK) The residual fuel oil trade also helped finance the insurgency, Dujayli said, because the companies that paid off Ministry officials to get the oil from Bayji would then pay USD 20 a metric ton to ensure safe passage driving through insurgent-controlled territory to Syria, for example.

¶7. (S/REL UK) The Fadhila Party was only the latest to use the Ministry as a source of corruption. The worst offender in Dujayli's tenure as SOMO Director General, which started in June 2005, was Abd al-Sahib al-Kutub, adviser to Ibrahim Bahr al-Ulum, who really ran the ministry during Bahr al-Ulum's first and second tenures as Minister. (Note: Dujayli said that during the Iraqi occupation of Kuwait, Kutub ran the Kuwait Petroleum Company for Saddam. End note.) In June 2005, Kutub set up the Ministry of Oil Supervisory Board, ostensibly to have oversight over oil sales contracts. "The role of the Supervisory Board was nothing but corruption for personal gain," Dujayli said. Board members, especially Kutub, would tell Dujayli to whom he should award contracts. Kutub worked "closely" with SCIRI and Jafari, according to Dujayli, and they profited from their relationship with Kutub (NFI). However, Dujayli said, the Fadhila Party was now even worse than the previous group under Bahr al-Ulum. Moreover, even if Fadhila is ousted from the Ministry, the Yaqubis were working to lock in six-month contracts for the companies who were bribing them now.

¶8. (S/REL UK) In another example, Dujayli said two Iraqi firms -- Jesco (ph), run by Musab Yassin and Ahd, run by Khalid Rumi -- had contracts with the Kuwait Petroleum Company (KPC). Bahr al-Ulum had ordered that a third party be inserted as a middleman between the two Iraqi firms and KPC. Dujayli understood this was due to a USD 1 million bribe being paid (NFI).

¶9. (S/REL UK) The big money was to be made on corruption involving crude oil sales contracts, Dujayli said. "On crude sales, I yielded nothing," Dujayli said, but he expected now that he was gone and SOMO had been put in the hands of Mr. Amiri, Director General of the Iraqi Ministry of Oil's shipping company in Basra and a Fadhila supporter, that corruption would also begin in earnest on crude oil sales contracts.

¶10. (S/REL UK) Dujayli would not name any of the companies that were paying bribes to Fadhila Party, except to say that some were British companies and some were also involved in the Oil-for-Food scandal.

Dujayli Complains to Jafari and Chalabi,
but No Follow-up: "Chalabi is weak"

¶11. (S/REL UK) Several weeks ago, after Dujayli had raised his concerns about Fadhila's corruption with USG and HMG officials, EconMinCouns and UK Emboffs had raised the matter with DPM Chalabi, who had agreed to write Jafari. However, Jafari had sent no order to the Fadhila people in the Ministry, nor had Chalabi actually written to Jafari, according to Dujayli. (Note: Obviously, verbal contact would also have been sufficient, but the sacking of Dujayli would seem to indicate that no "hands-off" instruction was given to Fadhila. End Note) Dujayli then accompanied Jafari and Chalabi to Turkey, where both urged him to stand up against Fadhila's corruption and promised to protect him from retaliation.

¶12. (S/REL UK) Standing up against corruption was claimed by Dujayli as the direct cause for his dismissal. In his version of events, the two Yaqubis wanted to travel to Kuwait to negotiate contracts that would call for corrupt payments. Dujayli said they could not go, and Chalabi told him to stick to this decision. However, the two Yaqubis then went to the Minister of Oil on or about March 5 and sought Dujayli's dismissal. In response, Dujayli was

BAGHDAD 00000750 003 OF 004

sacked on March 6, replaced by Mr. Amiri. Dujayli asked for USG and HMG intervention on his behalf, with Chalabi in the first instance.

13, (S/REL UK) Dujayli was concerned that Chalabi would not stand by him. "Chalabi is not immune" to corruption, Dujayli said. "Chalabi was Oil Minister for five days, and he gave his blessing to a contract to sell residual fuel oil and gas oil to Fadhila for tankers for smuggling," he said. "He did exactly what al-Ulum was doing." "Chalabi is weak -- he tried to bribe al-Fadhila. He told me to give them the contract," he said. Still he recognized Chalabi's intervention to rescind the order for his dismissal was his best hope at regaining his position, and he asked USG and HMG to weigh in with Chalabi.

Cui Bono?

¶14. (S/REL UK) When asked who in Fadhila was profiting from this corruption, Dujayli said that Nadeem Jabiri "has no real role in this -- Yaqubi has the power." The money goes down to Najaf (NFI) and is controlled there by Shaykh

Muhammad al-Yaqubi. Because Fadhila has just taken direct control of the Ministry, the total dollar volume siphoned off to Najaf thus far is relatively small. If it continues, Dujayli indicated, the total dollar volume will be very large, because it will embrace residual fuel oil sales, crude oil sales, and petroleum product imports.

¶15. (S/REL UK) When asked his future plans, Dujayli said he thought he would make an excellent Oil Minister. He says he believes in free markets, cooperation with multinational energy companies, and would like to expand Iraq's oil production to six million barrels a day. He also claimed the support of the Sadrists, noting that "the Sadrists want the Ministry of Oil." When Emboff asked if the Sadrists might want it for the same pecuniary reason that Fadhila did, Dujayli demurred, and said they wanted it only to see it was well-managed. When asked if the position of the Sadrists was to encourage Western participation in the upstream Iraqi oil industry, Dujayli said that as minister, he would do what was right for Iraq.

Bio Material

¶16. (U) Dujayli is a Ph. D. in energy economics from the University of Birmingham (UK). He joined the Ministry of Oil in 1976, and worked at SOMO for 17 years. He is Shia, from Dujayl. He said that 48 of his cousins were executed by Saddam, and that he was never a member of the Ba'th Party.

Comment: Corruption and the Dilemma
of Political Party Funding in Iraq

¶17. (C) Comment: The Ministry of Oil was widely regarded by Iraqis as one of the four most corrupt Iraqi ministries during the Governing Council, and it is now indisputably the most corrupt ministry in Iraq today. Dujayli was willing to tell us the above information in confidence -- the meeting was scheduled before he knew he was going to be sacked. Dujayli's motives may not be as pure as he would like us to believe. Other information learned at Post suggests that Dujayli and former SOMO Director General Shamkhi Faraj are involved in steering oil contracts to companies connected with Shia political figures. Both Dujayli and Faraj were appointed at the behest of Chalabi in the fall of 2003 after Bahr al-Ulum was named Oil Minister, when then-DG of SOMO Muhammad al-Jaburi was ousted for failing to award two crude lifting contracts as directed by a Chalabi associate. Dujayli has long been an advocate of Chalabi. There are allegations that Dujayli and Faraj are involved in steering oil contracts to Chalabi associates. There is still hope that under the proper leadership, the Ministry can be reformed and restructured. The Embassy is preparing plans for a transparency and anti-corruption initiative focused on the oil sector to draw on the fact that Council of Representatives backbenchers are overwhelmingly likely to favor transparency and reform.

¶18. (C) The greater challenge is political party funding. Fadhila's plight is how to compete with SCIRI, Sadr and other Iranian-funded parties. Shaykh Yaqubi aspires to the

BAGHDAD 00000750 004 OF 004

marja'iyya (the highest rank of Shia clergy), which might get him a share of khums revenue (religious donations), but thus far he does not have the consensus necessary to elevate him to such a status. As Dujayli noted, Fadhila is doing nothing that other Iraqis have not done. Iraq does not have a tradition of political party fundraising. Indeed, the tradition is to the contrary: political parties are supposed to dispense favors and benefits,

including jobs and money, to party members. The January and December elections showed that democratic politics in Iraq, as in other, more mature democracies, costs money. No one has figured out the solution to the dilemma of how to fund democratic politics in Iraq without resort to corruption or foreign funding.

¶19. (SBU) Machinations over access to oil contracts could hardly come at a worse time. As of March 7, on-hand stocks of benzene and propane in Baghdad had been drawn down to zero, with kerosene and diesel also at critical levels. Such fuel as is available is being delivered directly from sources of supply (refineries or foreign shippers) to filling stations or black market sales points. The cancellation of existing contracts, as Dujayli said the Yaqubis would do so that contracts could be switched to their favored buyers, would add more chaos to this already extremely difficult situation. We intend to raise this matter once more at the highest available levels, seeking to maintain the flow of fuel products during this critical period. End comment.
KHALILZAD